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MONEY BOX

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LEWIS: Hello. In today's programme, we have more details on the Conservatives' tax break for some married couples and civil partners. A high street bank slashes ISA rates from more than 4% to a tenth of 1% without telling customers. And you sent in lots of ideas last week about cutting the government's debt, and Ruth Alexander's been looking at them.

ALEXANDER: Yes, how much could we save by pulling out of Afghanistan or by getting out of Europe? And what if taxes went up? We've been doing the sums.

LEWIS: More on that later. Nationwide says no cash withdrawals for some customers for less than £100.

STEVE: It seems to me it's about getting rid of the relatively poorer customers and trying to focus on selling products.

LEWIS: And a warning on pension switching. £150 million redress and schemes are still being mis-sold.

Well as we heard in the news, the Conservative Party has announced its plans to, as it puts it, "recognise marriage and civil partnerships in the tax system." The new rules would apply to couples where one pays tax and the other doesn't. The working spouse or civil partner would be allowed to keep an extra £750 of income tax free, which at basic rate means saving £150 a year, about £2.88 a week. David Willetts announced the policy for the Conservatives.

WILLETTS: We're trying to send out a signal about the importance of marriage as a very important form of commitment. We're also trying to ease the tax burden on people. And when you look around, one of the groups that's most heavily hit by the income tax system is one-earner couples, and we're trying to ease the tax burden particularly on them. Four million people will be paying less income tax as a result of this policy.

LEWIS: Other parties were not impressed. Vince Cable for the Liberal Democrats.

CABLE: The value they're putting on marriage is about £3 a week, and I somehow can't see too many couples staying together or getting together because of a £3 a week tax incentive. We don't think there should be a specific incentive in the tax system for marriage. It's not we're against marriage - I mean I'm very happily married and it's a good thing - but you don't use the tax system for this purpose. It simply doesn't work.

LEWIS: And Labour was equally dismissive. Here's Ed Balls.

BALLS: I don't think it's right for politicians to come along and say you're better if you're married. I want to support all families whatever shape and size they come in. I want to support children; tax credits, Sure Start children centres, smaller class sizes - all things the Conservatives are going to take away from families. The more you look at this, it's gesture politics, which is deeply, deeply unfair and will hit many, many families who'll be told in David Cameron's eyes you're just not quite as good.

LEWIS: Well live now to John Whiting of the Chartered Institute of Taxation. John, just to be clear, this is a tax break for marriage or civil partnership, not for having children?

WHITING: Yes, that's absolutely right, Paul. It's harking back to the old married couple's allowance, so therefore you don't get it just because you have children, you don't lose it if your children leave home. This is for being married. That's the theory of it.

LEWIS: Yes, an allowance of course the Conservatives got rid of, didn't they, in 1999?

WHITING: Well it was steadily phased out. Although 1999, Paul, your memory's failing you, we had a Labour government.

LEWIS: *(laughs)* Yes, of course we did. And one listener's emailed in to say, John, it means wives will have to be honest with their husbands - no secret source of income on which they pay tax. That will ruin privacy between married couples.

WHITING: Well possibly so, and that again has been one of the arguments. I mean these are all the arguments going back to when - again you and I will remember, many listeners will remember - the time when the husband was totally responsible for the wife's tax. We thankfully got rid of that many, many years ago, so it's independent taxation. So this is a certain amount of owning up. But then again we have that already - a flavour with tax credits where you're looking at the income of the couple, married or not.

LEWIS: Yes. And what happens when a married couple or a civil partnership breaks up? Will the separated partner still get this extra allowance until the divorce finally comes through? They could be living with someone else then, presumably?

WHITING: Well this is part of the detail. Of course we'd expect it to start when they got married and stop when, presumably, the absolute decree nisi came through because that's when it stopped. But I mean it's detail like that. Do you go for irretrievable breakdown? There's a lot of detail to sort out. Does it really start getting phased out like higher personal allowances do for the over-65s?

LEWIS: Ah, yes.

WHITING: At the end of the day you know it's a pretty modest amount, but it does do some of the recognition for when you have a couple where one stays at home and doesn't earn as wasted personal allowances, but that's true for the unmarried as well.

LEWIS: Yes. And of course it's also true for a lot of pensioners, isn't it? A lot of the couples who'll benefit will be over 65 and, presumably, this will be added to the extra allowance people over 65 get?

WHITING: Potentially yes, although presumably not to those who are now over 75 who still have the rump of the old married couple's allowance.

LEWIS: Yes. And you mentioned phasing it out for people on higher incomes. There seems to me to be a band of income between £42,500 and £44,000 where as it's taken away, the marginal rate of tax on each extra pound will be 30%. That's a bit of a shock for people.

WHITING: Well exactly, and I'm afraid this is what we're getting more and more of in the tax system and it's adding to the complexity. Many will recollect that once your income goes above £100,000, suddenly you're into a 60% marginal rate. Those on tax credits will say hang on, I'm on a 70% marginal rate for getting them withdrawn. Our system is getting more and more complex and that, I'm afraid, is one of the arguments against *any* extra allowance - will it really be understood and workable?

LEWIS: John Whiting, thanks. And you can let us know what you think: moneybox@bbc.co.uk.

Santander, the bank which now owns Abbey, is being accused of slashing the rates paid on its cash ISAs without telling customers. Accounts which paid an average of more than 4% for 7 years were cut without warning to just 0.1% last year, and the first that customers knew was a statement sent out at the end of the year. That's the accusation being made by Money Box listener Edward Hackford.

HACKFORD: The first we knew what had happened to these accounts was when we received in March this year a statement of the money that they had earned; and when we totalled what the four accounts had earned, the £31,000 had actually mustered a total of £31 over the year. We are retired and we rely on the interest from our accounts and our pensions to be able to pay our bills.

LEWIS: Well Edward complained, but he wasn't too happy with the answer.

HACKFORD: They said, "We're not legally obliged to notify investors of changes of interest rate. They're advertised in the media." If we had transferred to the 2.5% account, which they had on offer at the time. We've lost about £750.

LEWIS: Well one of a number of complaints. Not just about Santander, I have to say, but about the way banks and building societies treat their cash ISA customers. With me is Phil Jones from the consumer organisation Which? Phil, Edward had an old style ISA. The rate was cut because bank rate fell, but the banks have been criticised recently for tempting people in with high rates and then slashing them after a year, haven't they?

JONES: Yes, this is one of the major complaints that we have in the ISA market at the moment. It's certainly something that exercises Which? readers a lot. People are tempted in with headline rates of say 3%. Now at the moment, with inflation running at 3% and many ISA rates down at 0.1%, it can be a tempting offer; but if it falls back down again after only a year, then you're no better off. So, yes, you really need to be on top of this and be aware of what's going on with your ISA.

LEWIS: And check all the time. Now of course new rules start in May, which should mean that cuts in rates will be notified rather better than just a small ad in the Times, which used to be the case.

JONES: It does seem ludicrous that an advert in the Times could be considered an adequate notification. There are new rules being brought in, which is definitely good news, and perhaps that would have prevented this case we've heard about today. But we do feel that there needs to be better notification even than is planned. For example, if the base rates are going up and your ISA is not keeping pace with it, then the consumer should be told about that as well.

LEWIS: Now of course if Edward wanted to move his ISA, he could do that, but there are many ISAs you can't transfer into. In fact the best one from Santander won't accept old money into it.

JONES: Yes, it seems the way this market works is by capitalising on inertia, so it's often they'll try and attract you in with an offer, but if you're already there, you can't move in. So I do think that there are a lot of problems in this market, which is why it's welcome that there has been a super complaint put forward to the Office of Fair Trading about this just last week.

LEWIS: This was by the National … sorry Consumer Focus?

JONES: Consumer Focus, indeed, which Which? certainly supports. And we're hopeful that this will shine a light on some of these practices and give the industry a bit of a kick up the backside to sort things out.

LEWIS: And of course one of the things that Consumer Focus would like to have a kick up the backside, as you put it, with the ISA market, is when you do transfer, it can take weeks and weeks to move money; whereas now we're all used to making instant transfers on our computers.

JONES: Well it does seem crazy really that in this day and age the target date that the banks have set for themselves, well HMRC has set for them, is 30 days. We have instant transfers in many areas. Which? has called for a 10 day transfer and a fully electronic system.

LEWIS: And finally, Phil, what's your advice to people who've got ISAs? There's £160 billion in them, after all.

JONES: Many of us do have ISAs these days, and you need to be aware that you will be penalised for loyalty like in many areas of financial services. You need to be active and be prepared to vote with your feet despite the problems. If you're prepared to lock your money away, that's going to get you a higher rate, and do be willing to complain if things go wrong.

LEWIS: Phil Jones from Which?, thanks very much. Now in a statement, Santander said to us it was: "committed to being one of the most consistently competitive ISA providers", but it refused to provide anyone to come on the programme to answer questions.

Last week, we dedicated the whole programme to the government's near trillion pound debt and the annual overspend which means that debt will grow by another half a trillion pounds over the next 5 years. Mind-boggling numbers. I had a go at balancing the budget with a computer programme created by economists at the Institute for Fiscal Studies - without, I must say, much success. So I asked you for your ideas, and a lot asked why we had concentrated on cuts, not raising taxes. David from Westcliff-on-Sea said to us: 'Surely an obvious solution is preserving services and putting up taxes. Why is no-one talking about this?' Well Ruth Alexander's been looking at the numbers. Ruth?

ALEXANDER: Right. Well, yes, David's right, of course - cutting spending isn't the only option a government has. Raising taxes would also help cut the overspend - which, just to remind you, is £163 billion this year. That's the estimate anyway. Now, okay, so a penny on income tax. That would raise an extra £4.5 billion. That would be an option. Putting up VAT by 1% would raise again an extra £4.5 billion. You could go further - VAT at 20% would raise an extra £11 billion. But you know the deficit's £163 billion, so these are relatively small numbers.

LEWIS: Yes. And Laurence in Sutton Coldfield had a radical idea.

ALEXANDER: Yes, he thought about raising VAT to 25% and getting rid of all of the taxes. But you know, okay so you'd raise about £100 billion in VAT if you did that, but you'd also lose about £400 billion in all your other taxes - so a bit of a no-no.

LEWIS: Yeah, they're just finding what I found, aren't I - that anything you think of doesn't quite work? What about big cuts though? Nick in Bristol wants to know why big cuts in welfare, social security are never discussed?

ALEXANDER: Right, well the social security budget is a whopping £170 billion - in fact about the size of the government's overspend. And so economists we've spoken to have had a look at this and they estimate that just freezing all benefits for a year, for example, would save about £4 billion. And if you means tested child benefit and the family element of the child tax credit, that would save £6.5 billion. But, again, relatively small beer.

LEWIS: Now a number have emailed with a point perhaps best summed up by Joanna, who said to us: 'The first thing I'd reduce with a scythe', she says, 'is the defence budget, and I'd bring the troops back from Afghanistan.'

ALEXANDER: Well total defence spending for this year is expected to be almost £41 billion. Now pulling out of Afghanistan would save about 10% of that £4 billion, but that would take only about 2% off the overspend. So what about cutting other aspects of defence spending then? Is it an area where we could save significant amounts? Andrew Dilnot, an economist we heard from last week, reckons not.

DILNOT: In 1955, 9% of the whole of national income was spent on defence. That's more than we now spend on health or education. That's fallen steadily and now that's down to 2.4% of national income. So it's almost a quarter as important as it was 50 or 60 years ago. So there is still scope to reduce that, but probably not by very much if we were to continue with anything like our current defence arrangements. So, yes, there's some money to be saved there, but it's been hacked back repeatedly - not least by Mrs Thatcher. When Mrs Thatcher came to power, the number was 4.5%. By the time she left, it was down to 3.5.

LEWIS: And Ruth, still on defence, other listeners wanted to get rid of the UK's Trident nuclear missile submarine, due to be replaced at really quite large cost?

ALEXANDER: Yeah, could be up to £20 billion. Well it would be possible to junk the idea altogether because we've not signed a contract with any companies yet, apparently. But the Ministry of Defence says the bulk of that money wouldn't be spent until 2014, so it doesn't help politicians who want to see the deficit cut before then.

LEWIS: Now a number of listeners have said they want to see the axe fall on Europe. Neville is one of them. He said: 'It would seem to me that our contribution to Europe should be reduced from the current £45 million a day.' Another, David in Bath, points out that amount goes up every year.

LEWIS: Well £45 million a day - that mind-boggling figure, I suppose, comes from the gross amount of money that the UK gives to Europe. But we actually get a lot of that money back in rebates and subsidy, so the actual cost of being in the EU will be about £7.6 billion this year, it's thought - more than double what it was 2 years ago.

LEWIS: And what about overseas aid because we said that was completely protected in the figures we looked at? Tom in Rickmansworth though thinks it should be cut. He says: 'How can we borrow to give money to other countries?

ALEXANDER: Right, yes, well all three parties say they would protect, all three main parties; but it's £8 billion, so if Tom was in power, he could save a fair amount there. Now looking at all these cuts altogether, if you added them all up Money Box listeners would be saving about £40 billion for the government, almost a quarter of this year's expected overspend.

LEWIS: Vote for Money Box. If only it was that simple. Ruth, thanks very much indeed.

Nationwide is to stop many of its customers withdrawing amounts below £100 from its branch counters. The customers concerned are those with cash cards. Nationwide wants them to use cash machines instead, and that didn't please Mike Ivett whose 83 year old father withdraws small amounts of cash over the counter each week and he wants to carry on.

IVETT: I feel the changes that Nationwide are going to make are very sad actually. The service that my father's received at the branch from the people there has been absolutely excellent. If you look at the queues in the branches, the majority of them are elderly people, and you know despite what people might think, the elderly don't actually like queuing. There's a reason they're using the counter there, and it's not out of pleasure. They actually need that service that's being provided. Building societies were established to look after their members, and it's a sad indictment when a large proportion of those members are going to have to hand over running of their own accounts maybe to other people and that's not going to be their choice.

LEWIS: Well one reason Nationwide gives for the change is to reduce the number of people (like Mike's dad) who make the queues longer in the branches. But another group of customers are being told they can't use machines any longer; they'll have to queue up. They're people with cheques over £1,000 to pay in. The fast self-serve machines won't accept cheques that big anymore. Money Box listener Steve from Preston wasn't impressed.

STEVE: I felt really irritated that they were being presented as a response to what their members wanted. But when I read the fine print, clearly it wasn't. Some of the changes that are impending will actually *increase* queue length. And it seems to me it's about getting rid of the relatively poorer customers and the low value transactions and trying to focus on selling products, which the banks have done for a long time but which in principle I thought the building societies might be different.

LEWIS: So why is Nationwide making these changes? Graeme Hughes is Divisional Director for the branch network.

HUGHES: About a third of all of our counter transactions are carried out by less than 8% of our customer base, so when you listen to the other 92%, they're saying to us, "What can you do to speed up the queues?" So what we're trying to do is to look at alternative ways of dealing with our customer base. The customers we're talking about already have cards, but I do recognise that for some of them what we're asking them to do won't be particularly good for them, which is why we've given 2 months notice.

LEWIS: It's not all your customers who can't take out small amounts of cash, is it?

HUGHES: At this stage, we're not including the people who've got Visa debit cards.

LEWIS: So it's the low income customers? It's the ones who have cash cards and the FlexAccounts where you don't have a debit card?

HUGHES: The reason we've excluded Visa debit cards at this stage is because the majority of those customers are using us as their main current account. And therefore rather than just being a simple savings account, they will want to do other transactions. That's why we've excluded them at this stage.

LEWIS: But cash card account customers, that is their only current account in many cases.

HUGHES: It may be. That’s not necessarily the case.

LEWIS: Why have you picked on them? Why are they being stopped from doing what they want to do - go to the counter? I mean, for example, if they just have their retirement pension, their state pension, it could well be less than £100. If they want to take it out, they want to come in, take it out in cash and go and spend it.

HUGHES: When we look at the types of transactions that customers actually do in branches, the vast majority of customers that do those transactions do it not in a way you’ve just described with £97, but they’ll take it out in lumps of £10 or more. What we are looking to do is to help our customers to use the cash machine, so we give them up to 2 months notice, so that we can talk to our customers to help them to do the things.

LEWIS: But when you talk to them and say, “You can’t do it anymore, you’ve got to use a cash machine” and they say, “I don’t want to use a cash machine” or, in the case of Mike’s father, may not be able to remember his PIN, doesn’t want to be in the street taking out cash from a machine because he feels vulnerable at the age of 83 …

HUGHES: Yes.

LEWIS: … there isn’t an alternative, is there?

HUGHES: Well there are lots of alternatives, depending on exactly what Mike’s father wants to do. I think the best thing that he could do is come in and talk to us.

LEWIS: He’s done that and he’s been given this leaflet. That’s why he rang us.

HUGHES: But this might not be the right account for him. He’s got a card account, and he doesn’t sound like he’s particularly comfortable using a card account. But if he needs to pay bills or do anything like that, then there are other ways of doing it. There’s online banking, there is …

LEWIS: He’s not going to do online banking. I mean come on!

HUGHES: Well if he’s at a stage where he’s … Don’t forget, the other thing we’re very clear on here is if we have vulnerable customers who are not comfortable doing this, we’re not insisting they do it either.

LEWIS: Ah, so he can come to you and say, “I’m a vulnerable person. I can’t remember my PIN” and he can carry on?

HUGHES: We’re very clear on this. We’re saying if somebody in any way suffers any sort of disabilities or is unable to use any of our new machines, then we’re happy to work around that.

LEWIS: So why is it if you want to reduce the queues that you’re telling people who’ve got a cheque for more than £1,000 that now they can’t use a machine and they’ve got to join a queue?

HUGHES: It’s being announced at the same time, but it’s for a different reason completely. Cheque fraud is an issue across the whole of the industry and we do find, as does everybody else, that cheque fraud tends to be on larger amounts. So by reducing the amount to £1,000, we’re trying to protect our members. In reality, this would be the equivalent of less than one transaction per branch per day. It’s a very small amount.

LEWIS: It also says in your leaflet, ‘we want to do this to give you the opportunity to talk to one of our consultants to try to help you get the most from your money.’ So, as Steve Harrison said, it’s actually to get people to the counter, so you can say “Oh, you’ve got £5,000. We can do more with that.”

HUGHES: Well a lot of our customers at the moment, especially in the lower interest rate environment, are looking for alternative ways to earn money on their savings - just as I would and I'm sure you would.

LEWIS: That was Graeme Hughes. And those changes start on 7th June. You can have your say on that subject: bbc.co.uk/moneybox.

Is there another pension mis-selling scandal brewing? Over the last 4 years, about half a million people, normally in their 50s and 60s, have been encouraged to move their pension plan from one provider to another or combine several pensions into one. It's known as pension switching, and this week the Financial Services Authority said £150 million is due to be paid out in redress for mis-selling and warned the industry had a lot more to do. Dan Waters is Director of Conduct Risk at the FSA.

WATERS: We'd had an unacceptable level of problems at that point and we decided that what we needed to do was quite a substantial amount of further work, as you will have seen.

LEWIS: You've announced this week £150 million in redress, in compensation may be due to customers.

WATERS: Yes.

LEWIS: How many firms are going to be paying that £150 million?

WATERS: It's a moving target, to be honest, and the particular number is probably not certain. There are dozens, there are dozens.

LEWIS: Dozens. But there are thousands of firms selling it …

WATERS: There are.

LEWIS: … so the total could be far more than that?

WATERS: Well it's difficult to have a debate about you know what is the total number. The important message here to the industry is the FSA takes these standards very seriously. We are seriously on the case and we expect people to comply.

LEWIS: And what about people who have switched a pension or consolidated several pensions in the last 4 years …

WATERS: Yes.

LEWIS: … who are listening to this and think, gosh, I wonder if I was given the right advice. What should *they* do?

WATERS: If I was that person, I think I would go to Money Made Clear and I would look at …

LEWIS: This is your website for consumers?

WATERS: Sorry, yes that's right, thank you. And I would look at the information we publish there, which is directed to consumers and talks about you know things to consider in the context of switching.

LEWIS: And if they think that they may have fallen foul of one or more of those items, what should they then do?

WATERS: They should pick up the phone and talk to their adviser.

LEWIS: And then?

WATERS: And seek clarification. And if they're unhappy with that, if they think that something untoward has happened, then the complaints process is available to them, as you know.

LEWIS: Given that 99 cases out of 100 never come to you, the chances of being caught if you did fancy doing something wrong are pretty remote, aren't they?

WATERS: Well I guess I don't think that that's right, Paul. I mean I think that we've got a supervision and an enforcement programme here that people are advised to take quite seriously.

LEWIS: As a general rule, the process of what's called 'churning', of moving people from one product to another similar product, is against your rules. Why is pension switching allowed? Why is it not just churning?

WATERS: Churning implies in our rules that a person is being moved from one investment to another for no justifiable reason. And, as you will have seen from reading the report, some of the concerns that we've had here is that even though switching may be a sensible thing for people to do, there are circumstances (and some of them we've found here) where it wasn't, and that is a situation of unsuitability.

LEWIS: What you're saying, and why I asked the question, is having looked at your report, it does seem to me that a lot of this pension switching is just churning.

WATERS: What we've found is that in firms who we consider to be high risk, there have been a significant number of mis-sales. But don't forget that there were many firms who got this right. It's wrong to paint a completely black picture here. I'm not defending what's gone wrong, let's be very clear about that - the standards we have are the standards we have and we take them seriously.

LEWIS: And do you think having done this work and having issued this new report this week, is there still mis-selling of switching going on?

WATERS: Yes, we are not complacent about this. We continue to target the high risk firms as part of our ongoing supervision; we continue to take enforcement action; we continue to require redress to be made.

LEWIS: Dan Waters. Well that’s it for today. You can find out more from the BBC Action Line - 0800 044 044; our website, bbc.co.uk/moneybox. Sorry about my confusion about the ending of married couple’s allowance earlier. The process was begun by the Conservatives by Ken Clarke. Finally laid to rest by Gordon Brown when he was Chancellor in the year 2000. Our website again: bbc.co.uk/moneybox. Vincent Duggleby’s back on Wednesday, Money Box Live. I’m back next weekend with Money Box. Today the reporter was Ruth Alexander, the producer Penny Haslam, and I’m Paul Lewis.